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OAKWOOD PETROLEUMS LTD.

Annual Report 1976

ANNUAL MEETING OF SHAREHOLDERS

Annual and Special General Meeting of Shareholders of Oakwood Petroleums Ltd. will be held in the McIntyre Room at the Four Seasons Hotel in the City of Calgary, Alberta at the hour of 10:00 A.M., Local Time, June 28, 1977. A formal Notice of Meeting of Shareholders together with an instrument of Proxy and Information Circular is being mailed to shareholders together with this report.

DIRECTORS

DALLAS E. HAWKINS II, *Calgary, Alberta*
President of the Company
Chairman of the Board of American Eagle Petroleums Ltd.

BRIAN S. EKSTROM, *Calgary, Alberta*
Vice-President of the Company
Treasurer of American Eagle Petroleums Ltd.
President of Brian Ekstrom Management Ltd.

GERHARD KASDORF, *Calgary, Alberta*
Vice-President of the Company and President of American Eagle Petroleums Ltd.

BRIAN G. McCOMBE, *Calgary, Alberta*
Partner, McCombe, Cameron & Cormie

EDWARD G. McMULLAN, *Calgary, Alberta*
President of E. G. McMullan Ltd.

JACK WAHL, *Calgary, Alberta*
Chairman of the Board and Chief Executive Officer of Great Basins Petroleum Co.

R. ROSS HAMILTON, *Calgary, Alberta*
President of Great Basins Petroleum Co.
President of Scoteire Exploration Ltd.

OFFICERS

DALLAS E. HAWKINS II, *President*
BRIAN S. EKSTROM, *Vice-President*
GERHARD KASDORF, *Vice-President*
BRIAN G. McCOMBE, *Secretary*
GERTRUDE V. KERR, *Assistant Secretary*

HEAD OFFICE

220 One Calgary Place
330 - 5th Avenue S.W.
Calgary, Alberta T2P 0L4

SUBSIDIARY COMPANIES

Marwood Petroleum Ltd.
Bayview Oil & Gas Ltd.
Flamingo Oils Limited (N.P.L.)
Orient Investments Ltd.
Oakwood Petroleum Corporation
Oakwood Petroleums (U.K.) Limited
Oakwood Petroleums (Ireland) Ltd.
Oakwood Petroleums Italiana S.p.A.
Lochaber Oil Corporation Ltd.
Bueno Oils Ltd.
Coronado Consultants Ltd.

SHARES LISTED

The Toronto Stock Exchange

AUDITORS

Thorne Riddell & Co.
Calgary, Alberta

REGISTRAR

Canada Trust Company
Calgary, Alberta

TRANSFER AGENTS

Canada Trust Company, Calgary, Alberta and Toronto, Ontario

OAKWOOD PETROLEUMS LTD.

our 51st year of operation

HIGHLIGHTS

Incorporated under the laws of Canada on November 28, 1925

Capital: 7,000,000 shares without nominal or par value, of which 4,424,451 (net) shares are issued and outstanding.

STATISTICS

	1976	1975	1974	1973	1972
NET PRODUCTION					
Oil Production, barrels	204,345	161,182	173,214	108,493	107,107
Daily average, barrels	560	442	475	297	293
Gas Production, MCF	1,906,542	1,317,963	1,187,996	1,174,826	711,477
Daily average, MCF	5,223	3,611	3,255	3,219	1,949
SALES & EARNINGS					
Crude Oil and Natural Gas Sales	$2,594,838	1,428,553	1,060,939	546,600	400,122
Funds provided by Operations	1,459,830	484,966	269,948	24,501	5,127
Per Share	33.5¢	13.3¢	7.4¢	0.7¢	0.3¢
Earnings (Loss) for the year	$ 422,273	(126,596)	(798,172)	(279,359)	(147,936)
Per Share	10¢	(3¢)	(22¢)	(10¢)	(0.8¢)
LAND HOLDINGS					
Oil & Gas Lease & Permit Acres					
Gross acres	1,265,318	1,042,102	846,776	3,467,740	3,903,520
Net acres	221,048	163,053	116,733	286,595	325,503
Mining Claims & Exploration					
Gross acres	66,664	65,898	65,898	58,950	296,479
Net acres	6,666	6,451	6,451	5,895	29,647
NET RESERVES					
Oil and Condensate, barrels					
Proven	1,640,000	1,016,000	1,072,000	1,160,570	1,055,320
Probable	695,000	320,000	621,000	443,700	660,219
Total	2,335,000	1,336,000	1,693,000	1,604,270	1,715,539
Natural Gas, MMCF — proven and probable	44,596	28,490	24,150	26,044	23,726
Indicated Sandhills Gas Reserves, MMCF (net of royalty)	103,000	103,000	103,000	241,034	178,000

DIRECTORS' REPORT TO THE SHAREHOLDERS

May 30, 1977

In our last Annual Report we emphasized that company policy for 1976 and 1977 would be one of maximizing cash flow and development of existing properties. We have been able to carry out this policy with the drilling of a number of development wells and, to the extent that we have been able to do so, we have placed these wells on production. The results of our efforts are reflected in the accompanying financial statements which indicate a substantial increase in oil and gas sales, from $1,428,000 in 1975 to $2,595,000 in 1976, or an increase of 82%. Projecting our 1976 operations into 1977, the company is estimating 1977 oil and gas sales of $4,000,000, based on developed properties owned as of January 1, 1977.

One of our major problems, which faces all Canadian gas producers at this time, is lack of markets until approximately the end of 1978. Canadian markets are now receiving all the gas they are prepared to purchase and export contracts are being met. Additional exports to alleviate the over-supply would probably be logical, but are under the control of the Federal Government. Unless the Federal Government is politically inclined to permit additional exports, we see little chance to increase production of natural gas in Western Canada until that date. Therefore, the company will be faced with a costly delay in the marketing of available production, and accordingly must postpone certain of our exploration and development programs.

Additional emphasis was placed during 1976 and the early part of 1977 on expanding your company's operations into the United States of America. Effective January 1, 1977, the company purchased for approximately $2,000,000, an interest in approximately 8,000 acres of mineral rights in south Texas. This purchase is currently producing a net revenue to the company of approximately $25,000 per month. Additional drilling and acquisition programs will be carried out during 1977 in the United States since markets are more readily available there and net return on investment after government "take" is higher than in Canada.

In early 1977, the company acquired and cancelled $200,000 of its outstanding convertible debenture issue held by certain investors. This leaves a balance of $400,000 of this debenture issue still outstanding, which can be converted into approximately 348,000 shares. It is the company's intention, if acquisition is possible, to purchase and cancel these additional debentures prior to conversion, in order to eliminate any further dilution of the shareholders' equity. In general our policy will be to avoid any further dilution of shareholders' equity.

You will note in reading the report that the company acquired 110,000 additional shares of American Eagle Petroleums Ltd. during 1976, bringing Oakwood's ownership in American Eagle to 1,300,323 shares, representing 31% ownership at December 31, 1976. In 1977 to date of this writing, the company has made further purchases totalling 151,500 shares bringing our present ownership to approximately 35%.

We look forward to a successful year in 1977 and wish to express the appreciation of the directors and officers of your company to our dedicated employees and supporting shareholders.

On behalf of the Board of Directors

Dallas E. Hawkins II

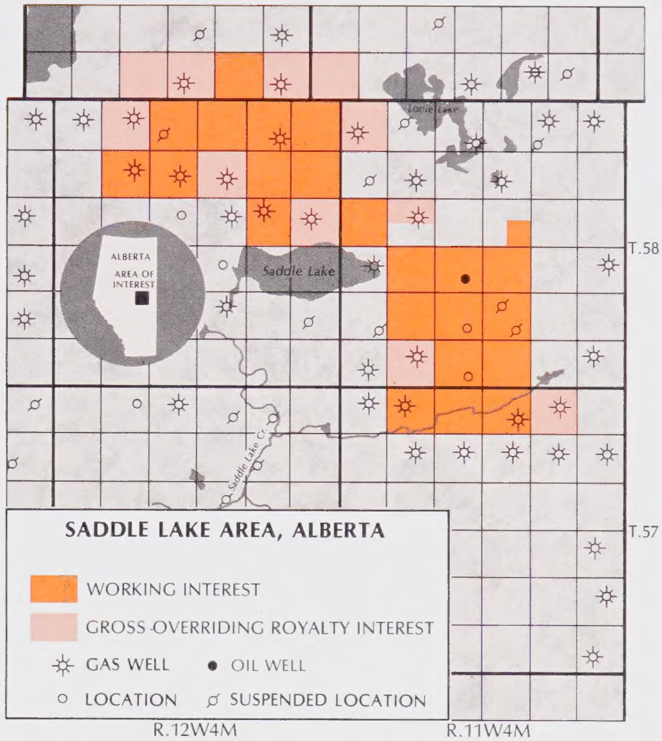
Dallas E. Hawkins II
President

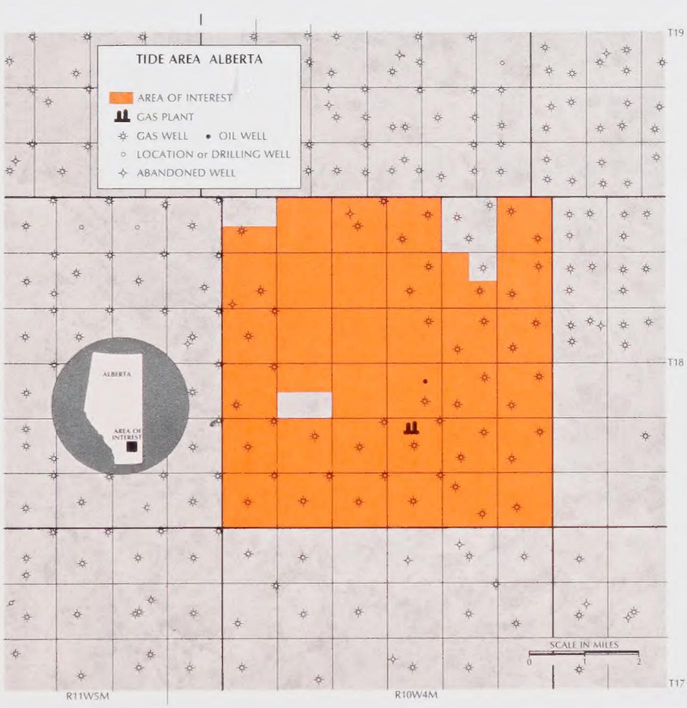
OAKWOOD PETROLEUMS LTD.

PRODUCTION PURCHASES

Saddle Lake Area, Alberta (See map)

Your company's Annual Report for 1975 reported that, in November, 1975, Oakwood Petroleums Ltd. as Operator on behalf of itself and partners, purchased a 50% working interest in approximately 12,000 acres, and a 7.5% gross overriding royalty convertible to a working interest at payout in approximately 9,280 acres in the Saddle Lake Area. The pertinent map will show that the properties are located in Townships 57, 58, and 59, Ranges 11 and 12 W4M. Subsequent to the purchase, 3 gas wells have been drilled and completed in addition to the 14 shut-in gas wells which were on the properties at the time of purchase. Oakwood's net interest in the Saddle Lake properties vary from a 5-10% working interest to a 1.5% overriding royalty interest. The properties have now been on stream for a period of almost one year and are presently producing for the account of Oakwood approximately 1.3 MMCF/D for an annual net income of approximately $300,000.





Tide Lake Area, Alberta (See map)

In late 1976, Oakwood negotiated the purchase of a 46.88% working interest in forty-nine producing gas wells and 21,600 gross acres located in Township 18, Range 10 W4M. The effective date of the purchase was November 1, 1976. The total purchase price of the acquisition was approximately $3.7 million which was primarily financed in association with a group of investors who participated in the purchase earning 80% of the proceeds from production until recovery of their investment. At that time the investor's 80% participating interest will revert to a 40% interest. American Eagle Petroleums Ltd. participated with Oakwood Petroleums Ltd. in the acquisition on a 50/50 basis.

To summarize the above, Oakwood Petroleums Ltd. and American Eagle Petroleums Ltd. each hold a 4.687% working interest converting at payout to a 14.063% working interest in the Medicine Hat and Milk River formations. Each of Oakwood and American Eagle hold a 23.44% working interest in all formations purchased below the base of the Medicine Hat formation. The Oakwood/American Eagle group have as partners PanCanadian Petroleum Limited, who hold a 53.12% working interest in the properties.

Dimmit County, Texas

In keeping with your company's policy of building the assets of the company by way of production purchases, effective January 1, 1977, your company through its wholly-owned U.S. subsidiary, Oakwood Petroleum Corporation, purchased an interest in approximately 8,000 acres of mineral rights in Dimmit County, in the southern portion of the state of Texas. The production purchase negotiated by your company with Petro-Lewis Corporation involved a total cash consideration of in excess of $10 million for the acquisition of a 25% working interest in the properties. Your company sold 80% of the production purchase to a subsidiary company of a well established major Canadian company, thereby retaining a 20% interest for its own account. The disposition of the 80% working interest to the participant provided that, upon recovery of the participant's acquisition costs, the interest shall be split 25% for the account of Oakwood and 75% for the account of the participant.

There are presently 6 producing gas wells situated on the properties purchased, producing approximately 15 MMCF/D of gas providing Oakwood with a net monthly revenue of approximately $25,000. It is the intention of the participants to carry out additional development drilling on the properties within the very near future, and it is estimated that such drilling should provide an additional 5 MMCF/D of sales gas. It is estimated that such an increase will approximately double the net monthly revenue from the properties. The gas from the area is presently under contract to Lo-Vaca Gathering Company and is selling for $2.0454/MMBTU.

OTHER ACQUISITIONS

In March 1976, Oakwood Petroleums Ltd. acquired as a wholly-owned subsidiary Lochaber Oil Corporation Ltd. Lochaber is the parent company of Bueno Oils Ltd., which owns various producing petroleum and natural gas interests in western Canada. It is estimated that this acquisition will provide an additional $300,000 net cash flow annually to your company.

The prime areas of interest in which Bueno has varying interests are the Viking-Kinsella, Alberta, area located in Township 48, Ranges 7 and 8 W4M. Bueno's interests in this area vary from .645% gross overriding royalty to a 15% lessor royalty interest in a total of approximately 15,400 acres. There is no production presently being obtained from the properties, however the general area is indicated to be productive and very likely will justify drilling in the future.

Bueno Oils Ltd. also holds a 12.5-50% working interest in 9,600 acres in the Acadia Valley area, Alberta, located in Township 25, Range 1 W4M. There has been a fair amount of successful drilling activity in this area over the past year. Bueno has recently agreed to participate with Compadre Oil Corporation in a farmout-option to drill a well to test the Banff formation, in which Bueno will participate as to a 50% interest.

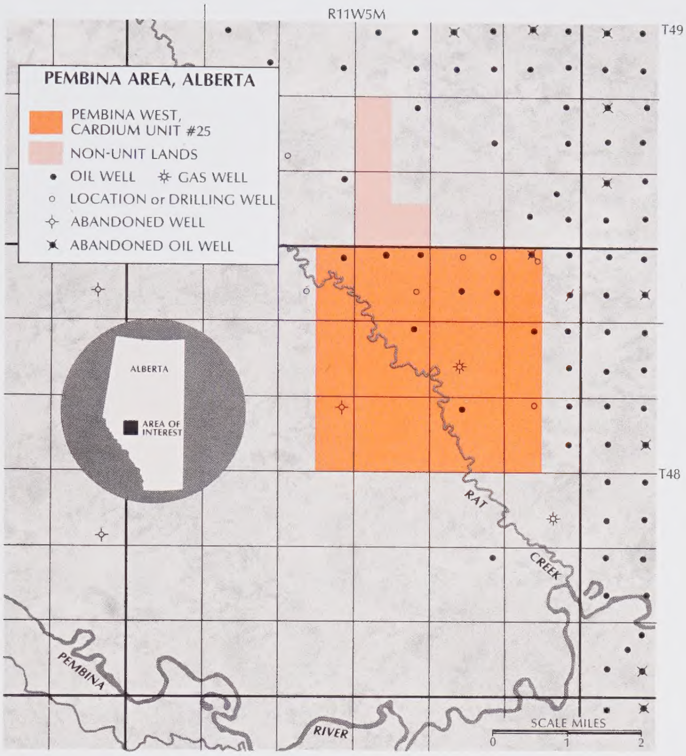
DEVELOPMENT DRILLING AND EXPLORATION

Matziwin-Gem-Verger Area, Alberta

Over the past several years your Company has regularly reported on its activities in the above area. The Matziwin gas plant went on stream in April, 1976, and approximately 3 MMCF/D is presently being sold from the area for the account of Oakwood Petroleums Ltd. and its subsidiary companies. During the latter part of 1976 eleven additional wells were drilled and successfully completed to provide additional daily volumes of gas to maximize plant capacity. Oakwood's interest in the properties in the area varies from a 5% working interest to a 100% working interest in a total of approximately forty-seven sections. Oakwood's average net monthly income from this area is in the order of $35,000.

Pembina Area, Alberta

Oakwood Petroleums Ltd. to date has participated as to its 20% working interest in the drilling of a total of eight wells in the Pembina Area, located in Township 48 and 49, Range 11 W5M. Seven of the eight wells drilled were completed as Cardium oil wells and one as a Basal Quartz gas well. In addition to the wells jointly drilled, one Cardium oil well was purchased by the participants from Amoco Canada Petroleum Company Ltd. The interests earned under the farmout agreement were subject only to the Lessor Royalty and a 10% Gross Overriding Royalty reserved unto the farmors. The nine-section block acquired pursuant to the farmout agreement and the purchase has subsequently been unitized as shown on the pertinent map. The participants further jointly



acquired an additional adjoining 800 petroleum and natural gas lease acres from the Crown.

Production is presently being taken from eight oil wells. Prior to spending additional monies in the area, it will be necessary to determine whether or not a waterflood scheme should be implemented in order to maximize production from the existing wells. A recent geological-engineering study has, however, revealed that it would be economically justifiable to implement such a waterflood scheme in the area. In this respect it is very likely that additional drilling will be undertaken in the not too distant future.

OTHER DRILLING AND EXPLORATION

During the year your Company participated as to varying interests in the drilling of a total of 64 wells, which resulted in 44 gas wells, 10 oil wells, and 10 abandoned. Acquisitions referred to elsewhere in this report resulted in a purchase of a total of 65 wells.

RESERVES

Your Company has had two firms of independent consulting engineers evaluate our property holdings as at January 1, 1977. The impact of our acquisition and development programs is reflected in the reported recoverable reserves which amounted to almost 45 billion cubic feet of gas and 2.3 million barrels of oil. It is estimated that the future net revenue from these reserves will amount to approximately $75,000,000. Present net worth of these reserves, employing a 12% discount factor, is estimated to be $30,000,000.

FINANCIAL HIGHLIGHTS

Your Company's growth pattern of earlier years continued in 1976 with total oil and gas sales amounting to almost $2.6 million as compared to $1.4 million in 1975. This growth pattern is even more pronounced in considering the net funds provided from operations, which totalled almost $1.5 million or 33.5¢ per share in 1976 as compared to $500,000 or 13.3¢ per share in 1975. Net earnings reported for 1976 were 10¢ per share as compared to a 3¢ per share loss for 1975.

As of this date your Company holds a 35% equity position in American Eagle Petroleums Ltd. — which investment will commence to yield some attractive returns to Oakwood Petroleums Ltd. in the coming years, as American Eagle's cash flow and earnings grow.

The Company is continuing its policy of acquisition of producing properties, such acquisitions being financed primarily through long term production bank loans. Looking forward to 1977 it is anticipated that the company will continue to pursue this acquisition program, as well as venturing into certain exploration programs which its present cash flow will permit.

OAKWOOD PETROLEUMS LTD.

CONSOLIDATED BALANCE SHEET — DECEMBER 31, 1976

ASSETS

	1976	1975
CURRENT ASSETS		
Cash	$ 1,191,718	$ 239,180
Accounts receivable — trade	1,364,128	913,281
— sale of resource properties	3,700,000	—
	6,255,846	1,152,461
RECEIVABLE UNDER SHARE PURCHASE PLAN (Note 3)	133,000	133,000
INVESTMENT IN AMERICAN EAGLE PETROLEUMS LTD. (Note 4)	998,244	1,093,450
PROPERTY AND EQUIPMENT		
Producing petroleum and natural gas leases and rights including development and equipment thereon, at cost	14,854,989	8,972,662
Accumulated depletion and depreciation	5,952,218	4,671,645
	8,902,771	4,301,017
Non-producing properties, at cost	1,563,709	976,311
	10,466,480	5,277,328
OTHER ASSETS		
Receivables and advances	10,004	69,492
Deferred financing charges	48,016	—
	58,020	69,492
	$17,911,590	$7,725,731

Approved by the Board

Dallas E. Hawkins III Director

Director

LIABILITIES

	1976	1975
CURRENT LIABILITIES		
Bank indebtedness (Note 5)	$ 2,955,284	$ —
Accounts payable and accrued liabilities	2,934,150	1,076,124
Income taxes payable	148,873	—
Current portion of prepayments under gas sales contracts	76,000	50,200
Current maturities on long-term debt (Note 5)	110,000	—
	6,224,307	1,126,324
PREPAYMENTS UNDER GAS SALES CONTRACTS	284,129	151,853
LONG-TERM DEBT (Note 5)	5,680,204	3,046,265
DEFERRED INCOME TAXES	1,155,789	154,170

SHAREHOLDERS' EQUITY

	1976	1975
CAPITAL STOCK (Note 6)		
Authorized		
7,000,000 common shares without par value		
Issued and to be issued		
5,019,785 shares (1975 — 3,643,781)	9,688,974	8,106,570
CONTRIBUTED SURPLUS	768,152	768,152
	10,457,126	8,874,722
DEFICIT	(5,205,330)	(5,627,603)
	5,251,796	3,247,119
Less 595,334 shares held by wholly-owned subsidiary company (Note 2(a))	684,635	—
	4,567,161	3,247,119
	$17,911,590	$7,725,731

OAKWOOD PETROLEUMS LTD.

CONSOLIDATED STATEMENT OF EARNINGS

YEAR ENDED DECEMBER 31, 1976

	1976	1975
REVENUE		
Sales of oil and gas	$2,594,838	$ 1,428,553
Interest and other	164,490	5,619
	2,759,328	1,434,172
EXPENSES		
Field operating	738,259	320,461
Non-producing property costs	87,469	48,100
Exploration, engineering and consulting	171,414	121,583
General and administrative	437,062	311,426
Interest on long-term debt	558,829	240,967
Depreciation and depletion	483,435	328,494
Share of loss of American Eagle Petroleums Ltd.	142,886	128,898
Write down of other assets	92,239	—
	2,711,593	1,499,929
Earnings (loss) before undernoted items	47,735	(65,757)
Gain on sale of resource properties	623,703	—
Earnings (loss) before income taxes	671,438	(65,757)
Income taxes		
Current	25,365	(93,331)
Deferred	223,800	154,170
	249,165	60,839
NET EARNINGS (LOSS)	$ 422,273	$ (126,596)
NET EARNINGS (LOSS) PER SHARE, based on weighted average number of shares outstanding during the year	$ .10	$ (.03)

CONSOLIDATED STATEMENT OF DEFICIT

YEAR ENDED DECEMBER 31, 1976

	1976	1975
DEFICIT AT BEGINNING OF YEAR	$(5,627,603)	$(5,501,007)
Net earnings (loss)	422,273	(126,596)
DEFICIT AT END OF YEAR	$(5,205,330)	$(5,627,603)

OAKWOOD PETROLEUMS LTD.

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

YEAR ENDED DECEMBER 31, 1976

	1976	1975
WORKING CAPITAL DERIVED FROM		
Operations	$1,459,830	$ 484,966
Production bank loans	696,700	2,037,806
Other long-term debt, net of financing charges of $48,016	1,151,984	—
Issue of capital stock on acquisition of Coronado Consultants Ltd.	1,582,404	—
Prepayments under gas sales contracts	132,276	—
Other	1,000	74,254
	5,024,194	2,597,026
WORKING CAPITAL APPLIED TO		
Acquisitions	5,236,238	—
Less working capital acquired	2,633,516	—
	2,602,722	—
Additions to property and equipment	2,208,390	1,398,494
Purchase of shares of American Eagle Petroleums Ltd.	47,680	8,095
Current maturities on long-term debt	110,000	—
Repayment of long-term debt	50,000	1,000
Reduction of non-current portion of prepayments under gas sales contracts	—	29,438
	5,018,792	1,437,027
INCREASE IN WORKING CAPITAL	5,402	1,159,999
WORKING CAPITAL (DEFICIENCY) AT BEGINNING OF YEAR	26,137	(1,133,862)
WORKING CAPITAL AT END OF YEAR	$ 31,539	$ 26,137

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 1976

1. ACCOUNTING POLICIES

(a) Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries all of which are wholly-owned. The excess of the consideration paid for shares of purchased subsidiaries over the net book value of the assets acquired has been included in fixed assets in the consolidated balance sheet and is being amortized on the same basis as such assets or has been deducted from shareholders' equity in the case where the purchased subsidiary held shares of the Company.

(b) Property and Equipment

The Company follows the practice of capitalizing the acquisition costs of both producing and non-producing properties and charging the costs to earnings if the property is subsequently surrendered. The cost of drilling a productive well is capitalized and the cost of a non-productive well is charged to earnings when the well is determined to be dry. The costs of producing leases and development thereon are amortized using the unit of production method based upon estimated quantities of oil and gas as determined by the Company's engineers.

Equipment is depreciated on a diminishing balance basis over its estimated useful life at annual rates varying from 10 to 30 per cent.

(c) Income Taxes

The Company follows the tax allocation method of accounting under which the income tax provision is based on earnings reported in the accounts. Accordingly, the Company makes full provision for income taxes deferred as a result of claiming capital cost allowances and exploration and development costs in excess of the amounts provided for depreciation and depletion in the financial statements.

2. ACQUISITIONS

(a) Effective January 29, 1976 and in exchange for 1,376,004 shares of the Company, all the issued shares of Coronado Consultants Ltd. were acquired from a director and officer of the Company and his family. Coronado has as its major assets petroleum and natural gas properties in Western Canada and 595,334 shares of the Company.

The net assets acquired and values assigned thereto are as follows:

Petroleum and natural gas properties		
at net book value		$ 354,409
Increase to fair value		1,102,999
		1,457,408
Shares of Oakwood Petroleums Ltd.		
at net book value	$188,591	
Increase to fair value	496,044	684,635
		2,142,043
Working capital deficiency		(506,565)
Other liabilities assumed		(47,240)
Amount of share consideration given plus costs of acquisition of $5,834		$1,588,238

(b) Effective March 30, 1976 the Company acquired for cash all the issued common shares of Lochaber Oil Corporation Ltd. and its wholly-owned subsidiary, Bueno Oils Ltd., which companies have as their major assets petroleum and natural gas properties in Western Canada.

The net assets acquired and the values assigned thereto are as follows:

Petroleum and natural gas properties	
at net book value	$ 666,140
Increase to fair value	1,482,747
	2,148,887
Working capital acquired	3,140,081
Other liabilities assumed	(1,640,968)
Cash consideration given	$ 3,648,000

(c) The acquisitions have been accounted for by the purchase method and the earnings of the acquired companies have been included in the consolidated earnings from the effective dates of the acquisitions. The excess of the consideration paid over the net book value of the assets acquired is subject to the accounting policies outlined in note 1(a).

3. RECEIVABLE UNDER SHARE PURCHASE PLAN

During 1974, 70,000 shares were issued to three officers of the Company under the terms of a share purchase plan. The purchase price, $133,000, is payable prior to March 21, 1978 (extended during the year from March 21, 1977) and is secured by the issued shares which are held in trust pending payment. Shares which remain unpaid at March 21, 1978 are to be returned to the Company in full settlement for any amounts then owing.

4. INVESTMENT IN AMERICAN EAGLE PETROLEUMS LTD.

The Company follows the equity basis of accounting for its investment in American Eagle Petroleums Ltd. whereby the investment is carried at cost less the Company's share of the earnings or losses of American Eagle since the date of acquisition. The excess of the consideration paid over the Company's share of the net book value of the assets is being amortized on the same basis as the related assets of American Eagle. At December 31, 1976, the Company owned 1,300,323 shares (approximately 31%; 28% in 1975) of American Eagle.

	1976	1975
Shares, at cost	$1,457,932	$1,410,252
Share of losses	459,688	316,802
	$ 998,244	$1,093,450

The shares had a market value of $598,000 (1975 — $387,000) at December 31, 1976. While, in the opinion of management the difference between carrying value and market value does not reflect a permanent impairment in the value of the investment and the Company has no immediate plans to dispose of the shares, it is not possible to determine the amount that may ultimately be realized from this investment.

5. LONG-TERM DEBT

	1976	1975
Production bank loans	$4,640,204	$3,046,265
Fixed charge debenture	550,000	—
9% convertible debentures	600,000	—
	5,790,204	3,046,265
Less current maturities included in current liabilities	110,000	—
	$5,680,204	$3,046,265

The bank indebtedness included in current liabilities and production bank loans as evidenced by demand promissory notes are secured by petroleum and natural gas properties, accounts receivable and shares of American Eagle Petroleums Ltd.

Subsequent to December 31, 1976 $2,800,000 of bank indebtedness (included in current liabilities) was repaid. The production loans are repayable out of future production proceeds and, accordingly, are not expected to require the use of existing working capital; therefore no portion of these loans has been reclassified to current liabilities. Interest is payable at the rate of 1% above the prime rate set from time to time by a Canadian chartered bank.

The fixed charge debenture is secured by a specific second charge against the assets of the Company in the Saddle Lake Area, and a floating charge against the assets of the Company in Alberta and Saskatchewan. It is repayable in monthly installments of $10,000 until June 1981, plus interest at bank prime rate plus 1%. In addition, the lender is to receive a fixed royalty from the Saddle Lake properties to earn until July 25, 1986 an aggregate of $165,000.

The 9% convertible subordinated debentures due in 1982 are secured by a floating charge against all assets of the Company and are subject to annual sinking fund payments of $150,000 commencing in 1979. The debentures are convertible into common shares of the Company as follows:

— To August 1, 1977 at $1.15 per share;
— From August 2, 1977 to August 1, 1979 at $1.35 per share;
— From August 2, 1979 to August 1, 1980 at $1.75 per share;
— From August 2, 1980 to August 1, 1981 at $2.00 per share;
— From August 2, 1981 to January 31, 1982 at $2.25 per share.

Subsequent to December 31, 1976, the Company purchased and cancelled $200,000 principal amount of the outstanding convertible debentures at a cost of $261,000.

The estimated principal payments on long-term debt for the next five years are as follows: 1977 — $1,188,000; 1978 — $1,158,000; 1979 — $1,140,000; 1980 — $1,240,000; 1981 — $714,000.

6. CAPITAL STOCK

Transactions in the Company's capital stock during the year ended December 31, 1976 were as follows:

	Number of Shares	Carrying Value
Balance, December 31, 1975	3,643,781	$8,106,570
On acquisition of Coronado Consultants Ltd.		
Issued in 1976	150,000	172,500
Issued in 1977	1,226,004	1,409,904
	5,019,785	$9,688,974

At December 31, 1976 common shares were reserved for issuance as follows:	
For issuance under Employee Incentive Stock Option Plan	60,000
For conversion of 9% convertible subordinated debentures	521,739
	581,739

7. SUBSEQUENT EVENTS

Subsequent to December 31, 1976, the Company has entered into an agreement to purchase certain petroleum and natural gas properties for cash consideration of $5,490,000.

8. STATUTORY INFORMATION

During 1976 the Company and its subsidiaries paid $1,200 to the Company's seven directors in their capacity as directors and paid $252,250 to six officers of the Company, three of whom are also directors.

AUDITORS' REPORT

To the Shareholders of
Oakwood Petroleums Ltd.

We have examined the consolidated balance sheet of Oakwood Petroleums Ltd. as at December 31, 1976 and the consolidated statements of earnings, deficit and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, subject to the ultimate recovery of the investment in American Eagle Petroleums Ltd. as referred to in note 4 to the consolidated financial statements, these consolidated financial statements present fairly the financial position of the company as at December 31, 1976 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Calgary, Alberta
May 30, 1977

THORNE RIDDELL & CO.
Chartered Accountants

OAKWOOD ANNUAL REPORT 1976

A PROFILE
JUNE, 1976

OAKWOOD PETROLEUMS LTD.

OAKWOOD PETROLEUMS LTD.
and subsidiary companies

CORPORATE INFORMATION

NAME:
Oakwood Petroleums Ltd.

INCORPORATION:
Dominion Charter granted November 1925

AUTHORIZED SHARES:
5,000,000

SHARES ISSUED:
4,424,451 — net

HEAD OFFICE:
220 One Calgary Place
330 - 5th Ave. S.W.
Calgary, Alberta
T2P 0L4

SOLICITORS:
McCombe, Cameron & Cormie
Calgary, Alberta

BANK:
The Royal Bank of Canada
Calgary, Alberta

CONSULTANTS:
McDaniel Consultants (1965) Ltd.
Calgary, Alberta

TRANSFER AGENT:
The Canada Trust Company
Calgary, Toronto, Montreal

STOCK EXCHANGE LISTING:
The Toronto Stock Exchange
Toronto, Ontario

OFFICERS:
Dallas E. Hawkins II, *President*
Gerhard Kasdorf, *Vice-President*
Brian G. McCombe, *Secretary*
Brian S. Ekstrom, *Treasurer*
Gertrude V. Kerr, *Assistant Secretary*

DIRECTORS:
Dallas E. Hawkins II
Gerhard Kasdorf
Brian G. McCombe
Brian S. Ekstrom
Edward G. McMullan
Jack Wahl
R. Ross Hamilton

TO THE SHAREHOLDERS

As Oakwood Petroleums Ltd. was incorporated in 1925, it has gone through many changes, as "change" is necessary in the very competitive oil and gas business. As of 1976, however, the Company finds itself in the midst of the most active drilling and development program in its history. In addition, various recent and planned purchases have added and will add to the assets (and work-load) of the Company.

But management must not forget, in the midst of daily business, to keep the 4,439 shareholders, or owners, of the Company informed and current on progress. We have therefore prepared this brochure to give you a ready summary of our situation, and to introduce some of the many people involved in the work of the Company and responsible for its results.

In connection with the recent financing placed privately with Triarch Resource Capital Corporation Ltd., a report was prepared for Triarch by Mr. G. R. Hugo, an independent petroleum consultant. Triarch has given its permission to reproduce the report for you. We believe Mr. Hugo's opinion to be equitable. However, as he has indicated in his report, the values given could be, under certain conditions, considerably higher.

For your information the 1975 Annual Report is being mailed concurrently, and the Annual Shareholders' Meeting will be held in August.

Finally, I would personally like to thank all of those people working with the company and each shareholder, for his loyalty and efforts on its behalf.

Sincerely,

Dallas E. Hawkins II

Dallas E. Hawkins II

DALLAS E. HAWKINS II

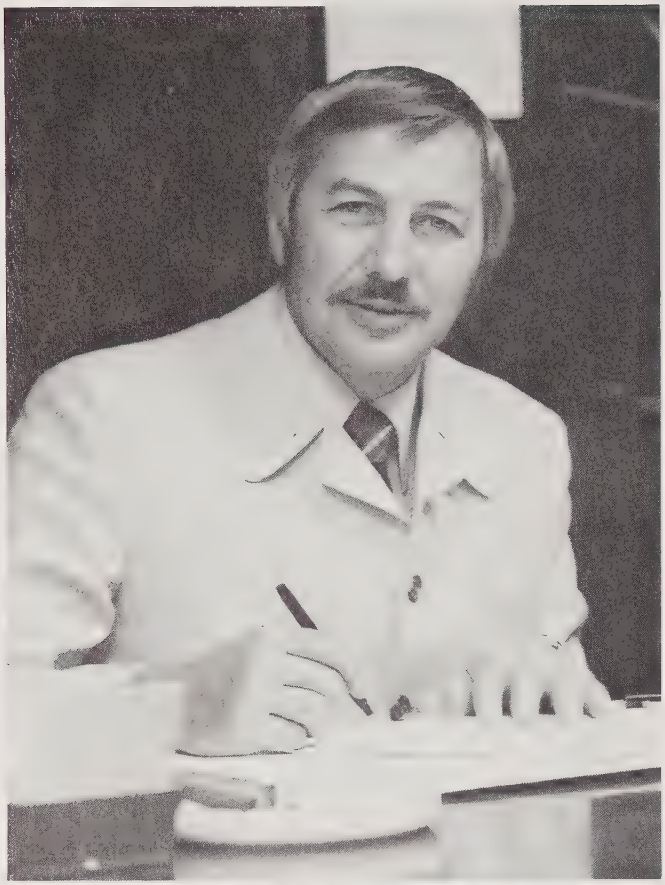
Dallas E. Hawkins II is President of the Company, a director, and the largest shareholder. He has served on the Company's Board since 1969 and as President since 1970.

As President, Mr. Hawkins' main responsibility is the overall management of the Company's efforts. In particular, he handles corporate actions, finance, governmental relations and devotes a lot of time to origination of projects and acquisitions.

Mr. Hawkins was born in Houston, Texas, in 1923, and received his Petroleum Engineering Degree from The Rice University, Houston. In addition, he received a Masters Degree in Petroleum Engineering from the University of Michigan. After military service during World War II he moved to Canada in 1951, becoming a Canadian citizen in 1967.

He started working in oil field activities in 1937 and has held increasingly complex positions in the oil industry, commencing as a laborer, since that time. During this 39-year period he has been employed by several oil companies ranging in size from independents to Majors, as well as being self-employed as a consultant from 1963 to 1972 in Calgary.

Mr. Hawkins is married and is the father of three children. His hobbies are reading, travel, sailing and golf.



GERHARD KASDORF

Gerhard Kasdorf is President of American Eagle Petroleums Ltd. and Vice President in Charge of Production and Operations for Oakwood Petroleums Ltd. He also serves on the Board of Directors of both Oakwood and American Eagle.

Mr. Kasdorf was born in Bassano, Alberta in 1933 and received his Petroleum Engineering Degree from the University of Oklahoma. After graduating, he went to work with the Gulf Oil Corporation in Canada as a Production Engineer. He worked for Gulf in various capacities, including Reservoir Engineering, until 1963, at which time he left and went to work for the J. M. Huber Corporation. He worked for the Huber Corporation until 1971, holding the title of Production Manager for their Canadian Operations during the latter years.

In 1971 he joined American Eagle Petroleums Ltd. as Executive Vice President and was elected President in November of 1972. In August of 1974, he also became Vice President of Oakwood Petroleums Ltd.

Mr. Kasdorf is married and is the father of three children. His hobbies are golf and curling.

TRUDY V. KERR

Trudy Kerr began employment in the oil and gas industry in 1957 with Amoco Canada Petroleum Company Ltd. in a senior secretarial capacity. From 1961 to 1969 she was employed with considerably smaller companies, where her duties were varied and thereby gaining a basic working knowledge of all phases of the oil industry.

She was employed with the Oakwood group of companies in 1969 as secretary and general assistant to Dallas E. Hawkins II, which constituted the entire staff of Oakwood. As the Oakwood group of companies grew, she became considerably more involved in land and other operational activities of the company.

She is presently responsible for all functions of the Land Department for the Oakwood group of companies and American Eagle Petroleums Ltd., coordination of operations with operational and engineering consultants, assumption of general office management, and general assistant to Mr. Hawkins and Mr. Kasdorf.

Trudy is also Assistant Corporate Secretary of the Oakwood group of companies.

BRIAN S. EKSTROM

Brian S. Ekstrom serves as a Director and Treasurer of the Company. His responsibilities include overseeing all the accounting functions and financing for the Company and all its subsidiaries.

Mr. Ekstrom was born in Calgary, Alberta and graduated from the University of Alberta in 1965 with a Bachelor of Commerce degree in Accounting. Since that time he has been involved in the oil and gas industry through his own management services firm. He has been associated with Oakwood Petroleums Ltd. since 1970.

REX H. BARNES

Rex Barnes graduated with a P. Geol. degree from the University of B.C. in 1952. His experience in the oil industry began in the field as a roughneck and in various other capacities. He has had approximately 25 years experience in the oil and gas industry and served as Vice-President and Canadian Manager of Bishop Oil Company, and Chief Engineer for Francana Oil and Gas Ltd., as well as holding certain other positions until he began his own consulting firm. His past experience in the operational end of drilling, production and management has provided a good basis for a consultant. His firm is presently employed on a contract basis, fulfilling the Oakwood group of companies' needs in respect to drilling and producing operations.

Heather Hall — Secretary-Receptionist

Vicki Gancheff
— Executive-Secretary

Audrey Blanchard — Secretary-Land Assistant

Darlene Harrison — Secretary

OAKWOOD PETROLEUMS LTD.
AND SUBSIDIARY COMPANIES

HIGHLIGHTS OF HUGO REPORT

Effective No. of Shares Outstanding — 4,424,451 Net

Current Price (June, 1976) — $1.55 to $1.90/Share

Price Range for 1975 - 1976 — $1.70 to $0.54 /Share

	Estimated 1976	1975
Gross Revenue	$2,830,000	$1,429,000
Cash Flow	$1,611,000	$ 457,000
— Per Share	35¢	12.5¢
Net Income (Loss)	$1,086,000	$ 63,000
— Per Share	23.6¢	1.7¢

Net Asset Value/Share:

Before Tax — $4.97

After Tax — $2.98

1975 Production:	Oil — 161,000 bbls. 442 BOPD	Gas — 1,318,000 MCF 3,611 MCFD
1976 Production Estimate:	Oil — 160,000 bbls.	Gas — 3,200,000 MCF

George R. Hugo was born in Lancaster, England in 1932 and attended University at the London School of Economics and the University of Alberta. He obtained a B.A. Degree in Economics and holds advanced certificates from Columbia University of New York and the Massachusetts Institute of Technology.

Mr. Hugo has held various analytical and economical posts with Mobil Oil Co., Calgary and New York, and in addition, has operated G. R. Hugo and Associates, a Calgary economic consulting company. In that capacity he has had among his professional clients the following companies:

Socony Mobil Oil Company
Home Oil Company
Texas Gulf Sulphur Company
Bow Valley Industries
Standard Oil of New Jersey
Colorado Oil and Gas
Rock Island Refining Company
Murphy Oil
Canadian Industrial Gas and Oil
King Resources
French Petroleum Company
Banff Oil
Tenneco
Western Decalta Petroleums
Supertest Petroleums

Mr. Hugo has been associated also with the securities business, being Manager of Dominion Securities Commission for 1970 and 1971, and being senior partner of Peters, Hugo & Co. Ltd., members of the Toronto Stock Exchange.

Mr. Hugo is the founding President of the Economics Society of Alberta, and member of various committees, including the Canada Petroleum Association and the Independent Petroleum Association of Canada. He is publisher of articles on petroleum economics and is a frequent contributor to Oilweek.

Mr. Hugo is married and has two children.

EVALUATION OF OAKWOOD PETROLEUMS LTD.

By

GEORGE R. HUGO

May 3, 1976

COMMON SHARES:

Current Price (May 3, 1976)	$1.56
Price Range 1975 - 1976	$1.70 - $0.54
Cash Flow 1975	12.5 cents
Cash Flow Estimate 1976	36.4 cents
Net Income 1975	1.7 cents
Net Income Estimate 1976	24.5 cents
Estimated Asset Value Per Share After Tax	$3.11

LISTING: Toronto Stock Exchange

MARKETABILITY:

In the three months ending March 31, 1976 a total of 1,410,100 shares traded as follows:

January	483,100
February	421,500
March	505,500

INTEREST EQUALIZATION TAX:
Non Exempt

CAPITAL STOCK AS AT MAY 3, 1976:

Authorized 5,000,000 common shares of no par value*

Issued 4,424,451 common shares**

*The authorized capital stock of the company is presently being increased to 7,000,000 shares.

**This figure includes the issuance of 1,376,004 shares for the acquisition of Coronado Consultants Ltd. The agreement to purchase Coronado Consultants Ltd. has already been entered into by Oakwood Petroleums Ltd. and allotment of these shares will be finalized after the increase of the authorized capital referred to above. Following the allotment of the 1,376,004 common shares the total issued common shares of Oakwood Petroleums Ltd. will be 5,019,785.

However, the agreement to purchase Coronado Consultants Ltd. makes that company a 100 percent owned subsidiary of Oakwood Petroleums Ltd. Since Coronado owns 595,334 shares of Oakwood the common shares of Oakwood effectively owned by the Public will be 4,424,451. Consequently, this figure is used in this analysis to determine a net asset value for Oakwood.

SUMMARY AND CONCLUSIONS:

1. The Company

Oakwood Petroleums Ltd. is a viable Western Canadian oil and gas company. At the present time it has two important characteristics. The first of these is the rapid change in asset values and cash flow now underway from internally generated exploration and development projects. The second is the fact that Oakwood is a company responding to the profound changes presently occurring from oil and gas price increases in Western Canada and, as such, is a vehicle for participating in the enhanced petroleum environment.

2. Management and Sponsorship

Management of the company principally resides in the person of the President, Mr. Dallas Hawkins II, who has spent about 30 years in the petroleum industry. Mr. Hawkins has shown himself to be a highly creative oil man with an impressive record of past successes. Vice President of the company is Mr. Gerhard Kasdorf, who is also President of American Eagle Petroleums Ltd., 28.7 percent owned by Oakwood Petroleums Ltd. Mr. Kasdorf is also a very capable individual who is highly regarded by his peers in the industry. Among the members of the Board of Directors are other leading members of the Canadian oil community, and this is viewed as a distinct corporate strength.

3. Reserves

This analysis is not intended as a precise updated reserve report on Oakwood Petroleums Ltd. At year end 1974 the company reported proven and probable oil and condensate reserves of 1.7 million barrels, proven and probable gas reserves of 24.1 billion cubic feet, while 103 billion cubic feet of gas reserves were "indicated" for Sandhills. It is apparent that recent company exploration and production activities as well as acquisitions have led to a significant increase in natural gas reserves which will appear in future annual reports. What may be considered as an approximation to the values ascribable to such increases may be found in the body of this report.

4. Production and Cash Flow

It is predicted that while the company's oil production may stay flat or even decline somewhat in 1976 over 1975, natural gas production will more than counterbalance this effect. Indeed it is conservatively estimated that natural gas production in 1976 will be 150 percent higher than in 1975, and will certainly take place at higher prices. This will have the effect of virtually increasing Oakwood's gross revenue by 100 percent in 1976 to a figure of $2.8 million, while cash flow should show an increase approaching 200 percent to $1.6 million.

RECOMMENDATION

Because of a better petroleum environment on the one hand, and the exploration and production activities of Oakwood itself, the company's stock selling at $1.56 per share appears to represent a very attractive speculation. Our calculation of the after tax value at 15 percent Rate of Return shows the net assets per share to be worth $2.98, and cash flow in 1976 should reach an approximate 35 cents per share. Further increases in cash flow and earnings can be confidently expected in 1977.

OAKWOOD PETROLEUMS LTD.

RECENT HISTORY OF THE COMPANY

The Company in its present form was originated in May 1970 when the Company acquired all of the common shares of Marwood Petroleum Ltd. As a result of the initial re-organization Oakwood became the parent company to Bayview Oil & Gas Ltd., Marwood Petroleum Ltd., and its subsidiary Flamingo Oils Ltd. (No Personal Liability), which is 95.837 percent owned by Marwood. Later other subsidiaries were either formed or acquired and all of these are owned 100 percent by Oakwood Petroleums Ltd. The complete list reads as follows:

Oakwood Petroleum Corporation
Marwood Petroleum Ltd.
Bayview Oil & Gas Ltd.
Oakwood Petroleum (U.K.) Ltd.
Oakwood Petroleums Ireland Ltd.
Oakwood Petroleums Italiana S.p.A.
Lochaber Oil Corporation Ltd.
Bueno Oils Ltd.
Orient Investments Ltd.
Coronado Consultants Ltd.

BUSINESS

The company and its subsidiaries have been and will continue to be engaged in the business of exploring for, developing and producing natural gas and crude oil. At the present time, exploration operations are conducted primarily in the four Western Provinces of Canada, the United States, and offshore United Kingdom and West Germany. The company's crude oil and natural gas reserves are primarily in Alberta, Saskatchewan and the United States and it also owns interests in natural gas plants.

PROPOSED FINANCING

The company proposes to undertake $600,000 of debt financing and additionally to issue by way of private placement a convertible debenture in the amount of $600,000. Since both the debt financing and the debenture remain subject to the satisfaction of certain conditions, the present analysis of the company, quite properly, treats both the debt financing and the convertible debenture as if they had not yet occurred.

OIL AND GAS PROPERTIES

The company produces crude oil and natural gas from numerous properties in Alberta, Saskatchewan and the United States. Tabulated below are the company's production statistics for the period 1973 - 1975, along with appropriate information on land holdings:

	1975*	1974	1973
Oil Production (Bbls)	123,000	173,214	108,493
Daily Average (Bbls)	337	475	297
Gas Production (Mcf)	1,333,000	1,187,996	1,174,826
Daily Average (Mcf)	3,652	3,255	3,219
Oil and Gas Lease and Permit Acres:			
Gross	1,052,343	846,776	3,467,740
Net	164,728	116,733	286,595

*Preliminary Estimate

Significant corporate developments during the last 12 months have involved the following properties:

MATZIWIN

During 1975 Oakwood and partners drilled 25 wells at Matziwin in Southern Alberta. This combined exploration-development program was for shallow Milk River and Medicine Hat gas. The property went on stream in April 1976, and Oakwood's interest of approximately 40 percent is expected to be a highly important source of revenue in 1976 and ensuing years. Production is currently at the rate of 7 MMcf/d for the whole field, although only the Medicine Hat zone is being produced. The Milk River zone is also considered to be potential over the entire area, and the Victoria Sand is present over a portion of the lands.

SADDLE LAKE

Here Oakwood and partners have purchased a 50 percent working interest in 12,000 acres, and a 7.5 percent gross overriding royalty convertible to a working interest on payout in a further 9,280 acres.

The property was purchased from Westhoma Oil Company in 1975, and the new owners proceeded to drill two successful gas wells. This success has increased the total wells on the property to 13. Since Oakwood and American Eagle participate as to 20 percent each in the group's purchase of both the working interest and royalty lands, the property will henceforth be an important source of revenue.

PEMBINA

During the last few months Oakwood and partners consummated the farmin of a nine section block of land in the Pembina region of Alberta. The region is considered proven and thus far two successful oil wells have been drilled. Size of reserves and eventual recovery rates do not have any precise determination at this time, but the property is certainly a valuable new asset. The Oakwood group owns the property subject to crown royalty plus a 10 percent overriding royalty; Oakwood is a 20 percent interest owner in the group, while American Eagle owns 19.5 percent.

PRINCESS

The company has a 40 to 100 percent interest in 12 producing gas wells in the Princess area of Southern Alberta which presently generate a net income of $260,000 per year. This property contains substantial undrilled reserves and will be an even more significant cash generator over the next few years than it is at the moment.

UNITED KINGDOM — NORTH SEA

Chevron is currently drilling a well on Block 3/7 in the U.K. sector of the North Sea. This well is the first of two to be drilled at Chevron's cost on the block. Under the agreement between Oakwood et al and Chevron the capital costs for exploration and for development work, should a commercial discovery occur, will be borne by Chevron. Provision also exists for Chevron to recover all the expenditures it makes on behalf of the group from subsequent production revenues. At the present time the well is below 10,000 feet and is expected to reach total depth somewhere below 12,000 feet. It is hoped that the test will prove that the Ninian oil field — one of the largest in the North Sea — will extend onto the northeast corner of Block 3/7. Oakwood's original interest in the Block was 5 percent, but following Chevron's undertaking to drill the well at its cost Oakwood's interest has reduced to 0.75 percent before payout converting to 1.75 percent after payout.

PROPERTY ACQUISITIONS

Oakwood has undertaken several significant acquisitions over the last 12 months. Notable among these have been the purchase of Bueno Oils Ltd. and Coronado Consultants Ltd. For purposes of the present study a value of $2.8 million was placed on these properties.

SANDHILLS PROJECT

The 1974 Annual Report of Oakwood Petroleums Ltd. ascribed 103 billion cubic feet of gas reserves, net after all royalties, to its Sandhills property in southwestern Saskatchewan. There the company retains varying 10 to 50 percent working interests in 236,486 gross acres for a net position of approximately 66,074 acres.

The area is just east of the large Medicine Hat gas field in Alberta although the play is for shallow Milk River gas rather than the Medicine Hat sand. The formation has an average thickness in excess of 300 feet and consists of interbedded sandstones, siltstones and shales. Approximately 30 percent of the zone is found to be gas bearing and is comprised of a series of thin lenses. Depth to the top of the Milk River formation is approximately 1500 - 1700 feet.

To date the Operating Group consisting of Oakwood 25 percent, Canadian Occidental 25 percent and Union Gas Company of Canada 50 percent has drilled a total of 31 productive wells and two dry holes. It should be borne in mind that the development of large shallow gas reserves is a capital-intensive pursuit, and that the economics are very sensitive to the contracted gas price.

At the present time, although the reserves are proven in every sense of the word, they are currently uneconomic under the gas pricing regime in force in Saskatchewan. For this reason the Operating Group has suspended further drilling activity. In the meantime, discussions are continuing with the Saskatchewan Government to arrive at some kind of arrangement under which the property can be produced economically.

From an evaluation point of view the conservative way of handling the Sandhills prospect is to assign it zero value. This is what has been done in this study, although the claim is not made that this is a satisfactory solution. The present worth of an Mcf of gas in Alberta varies considerably but much of it has a value in the 20 - 40 cents range. If a compromise were to be reached in Saskatchewan which would give the natural gas even a 5 cents per Mcf present worth value the effect upon Oakwood Petroleums Ltd. would be significant. Indeed, it would increase the pre-tax asset value by over $5 million, and on an after tax basis would increase the asset value per share by approximately 65 cents.

EVALUATION OF AMERICAN EAGLE PETROLEUMS LTD.
NECESSARY TO EVALUATE OAKWOOD PETROLEUMS LTD.

ASSETS

Cash and Receivables	$ 920,000
Deposits	29,000
Investment in E.P.C. Corp.	98,000
Petroleum and Natural Gas Properties at 15 percent Rate of Return*	5,849,000
	$6,896,000

LIABILITIES

Accounts Payable and Accrued Liabilities	$ 520,000
Bank Loans	1,140,000
Long Term Debt and Notes Payable	126,500
	$1,786,500

CAPITAL STOCK OUTSTANDING . . . . 4,151,629 common shares

ASSET VALUE PER SHARE BEFORE TAX . . . . $\frac{6,896,000 - 1,786,500}{4,151,629}$

= $1.23 per share

*Estimate made by G. R. Hugo

THE VALUE OF OAKWOOD PETROLEUMS LTD.

The last occasion on which a complete engineering evaluation of all the company's properties took place was January 1, 1975. Summarized results of this work, undertaken by McDaniel Consultants 1965 Ltd., are shown below:

	Estimated Company Share of Remaining Reserves as of January 1, 1975 Barrels - MMcf - Long Tons			Estimated Company Share of Present Worth Value at 15% Rate of Return BEFORE TAX
Reserves	**Proven**	**Probable Additional**	**Total**	
Net Crude Oil	1,038,600	621,200	1,659,800	
Net Natural Gas	18,050	6,100	24,150	$6,744,830*
Net NGL	33,500	—	33,500	
Net Sulphur	5,615	—	5,615	
Unproven Acreage at Fair Market Value				$1,740,000
				$8,484,830

*Includes value of Saskatchewan oil reserves slightly higher than strict McDaniel number.

The writer has reviewed in detail the most significant developments affecting the value of Oakwood in the intervening 16 months, and the conclusions reached from such analysis are summarized below:

		Estimated Value at 15% Rate of Return
Princess, Alberta	19.2 Bcf of proven gas reserves added	$ 7,258,000
Verger, Matziwin, Gem, Alberta	10.3 Bcf of proven gas reserves added	4,338,000
Purchase of Bueno Oils Ltd. & Coronado Consultants Ltd.	value added	2,846,000
Saddle Lake, Alberta	value added	1,000,000
Pembina, Alberta	value added	785,000
Connorsville, Alberta	value added	750,000
California and Texas Properties	value added	300,000
	TOTAL	$17,277,000

Superimposing the above changes in asset values, and related financial changes upon the basic McDaniel values leads to an evaluation of Oakwood Petroleums Ltd. which reads as follows:

NET ASSET EVALUATION
OAKWOOD PETROLEUMS LTD.

ASSETS

Cash and Receivables	$ 1,255,000
Deposits	21,000
Investment in American Eagle Petroleums Ltd. 1,190,323 shares at $1.23	1,464,097
Petroleum and Natural Gas Properties at 15% Rate of Return	25,761,830
	$28,501,927

LIABILITIES

Accounts Payable and Accrued Liabilities	$ 1,060,000
Bank Loans	4,340,000
Prepayment on Gas Sales Contracts	203,000
	$ 5,603,000

CAPITAL STOCK OUTSTANDING . . . . 4,424,451 common shares

ASSET VALUE PER SHARE BEFORE TAX . . . . $\frac{28,501,927 - 5,603,000}{4,424,451}$

= $5.18 per share

ESTIMATED ASSET VALUE PER SHARE AFTER TAX . . . . = $3.11 per share

COMMENTARY ON EVALUATION RESULTS

The value of Oakwood Petroleums Ltd. at $3.11 per share may be seen to have risen substantially since the last full scale evaluation 16 months ago. An active drilling program in the Verger-Matziwin-Gem area of Alberta was successful in adding to shallow gas reserves, and outside consultants have assigned substantial proven reserves to Princess even though much of the prospect has yet to be drilled. Because of the blanket-type occurrence of many of Alberta's shallow gas sands it is becoming an increasingly common practice, frequently substantiated by subsequent developments, to assign proven gas reserves to certain types of undrilled acreage. Oakwood Petroleums Ltd. will need to spend something on the order of $2 million in the next few years to bring additional Princess reserves on stream.

While parts of the writer's evaluation have made use of a number of different information sources, the type of future pricing schedule used in evaluating most of the gas properties is one which moves from the present 97 cents/Mcf at the wellhead to $1.70 by 1980 and $2.20 by 1990.

It should be noted that in essence no probable or potential reserves have been included in the overall evaluation, and despite the sharp increase in per share asset values the writer considers the calculated values to be conservative.

Further reasons enforcing this conservatism are the use of a somewhat high discount factor (15 percent) in determining the present worth of future income, and the expression of results on an after tax basis. Perhaps the largest element of conservatism in the evaluation is the complete omission of any values for Oakwood's Sandhills gas property in Saskatchewan. This asset has such potential future significance to the company that it was outlined in some detail when discussing the company's oil and gas properties earlier in this report.

The following tabulation sets out key financial data for Oakwood Petroleums Ltd. and American Eagle Petroleums Ltd. for 1974 and 1975, together with a projection for 1976.

OAKWOOD PETROLEUMS LTD.
HISTORICAL AND PROJECTED FINANCIAL DATA

	1974	1975	1976
Gross Revenue	$1,071,167	$1,429,000	$2,830,000
Cash Flow From Operations	269,948	457,000	1,611,000
Depletion and Non-Cash Charges	947,692	327,000	525,000
Net Revenue (Loss)	(677,744)	63,000	1,086,000
Number of Shares Outstanding	3,643,781	3,643,781	4,424,451
Cash Flow/Share	7.4 cents	12.5 cents	36.4 cents
Net Income/Share	(19.0) cents	1.7 cents	24.5 cents

AMERICAN EAGLE PETROLEUMS LTD.
HISTORICAL AND PROJECTED FINANCIAL DATA

	1974	1975	1976
Gross Revenue	$ 396,457	$ 398,000	$ 849,000
Cash Flow From Operations	(92,649)	11,000	393,000
Depletion and Non-Cash Charges	170,186	165,000	250,000
Extraordinary Gain — Sale of Assets	201,169	—	—
Net Revenue (Loss)	(61,666)	(154,000)	143,000
Number of Shares Outstanding	4,151,629	4,151,629	4,151,629
Cash Flow/Share	(2.2) cents	—	9.5 cents
Net Income/Share	(1.5) cents	(3.7) cents	3.4 cents

Outline of Oakwood's Near Term Exploration and Development Activity

Following the financing mentioned earlier in this report, Oakwood's tentative plans for the balance of 1976 include, but are not limited to, the following program:

Pembina: Drill a further 20 wells.

Princess: The company owns a 100 percent interest in eight sections of presently producing Second White Specks gas rights. Additional development on closer spacing is contemplated on an experimental basis.

Connorsville: The company owns a 40 percent working interest in approximately 6,500 acres of land in the Connorsville area of Alberta, on which there is one gas well presently capable of producing from the D1 horizon. It is contemplated that the company and its partners will drill at least two additional wells in this area.

Gladys: The company's working interest in 17,538 acres is 25 percent, and two Crossfield-Mississippian sour gas wells exist on the property. Additional development of either the Crossfield and/or Belly River sands will take place during the year.

Saddle Lake: Drill at least two additional wells.

G. R. HUGO May 3, 1976

OAKWOOD PETROLEUMS LTD.

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330 - 5th AVE. S.W.
CALGARY, ALBERTA
T2P 0L4

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TELEX 03-822846

lawson graphics western limited